

CERTIFIED MAIL

SEP 3 1983

Dear Sir or Madam:

We have completed our review of the application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1986.

Your submitted information discloses that you were formed as a corporation on [REDACTED] in the State of [REDACTED]. Your purposes include the promotion of water skiing as an organized sport through community programs, tournaments, clinics, exhibitions, "learn to ski" projects and the financing of any such activity.

Your activities are to coordinate water skiing tournaments, a "safe water skiing clinic," and to sell merchandise and concessions at the tournaments to defer the cost of maintenance of equipment, payment of demand note for water ski jump, supplies, tournament related expenses and advertising.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(7)-1(a) of the income tax regulations states that the exemption provided by Code section 501(a) for organizations described in Code section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Section 1.501(a)-1(c) of the income tax regulations defines the word "private shareholder" in Code section 501 as referring to persons having a personal and private interest in the activities of an organization.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[REDACTED]	[REDACTED]	[REDACTED]				
Surname	[REDACTED]	[REDACTED]	[REDACTED]				
Date	6/13/89	6/15/89	7/31/89				

Revenue Ruling 58-529, published in Cumulative Bulletin 1958-2, page 266, provides that a social club should not engage in any type of business activity which is designed to increase or which could result in an increase of net earnings to the benefit of any shareholder or individual. When a club derives income from nonmember sources and uses such income to reduce the cost of providing services to its members, an inurement of the club's net earnings is present.

Public Law 94-568, as explained in Senate Report 94-1318, published in Cumulative Bulletin 1976-2, page 597, provides that a social club exempt from tax and described in Code section 501(c)(7) may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers, so long as the latter represents not more than 15 percent of total receipts. If a social club's receipts from investments and/or nonmembers exceed either of these percentage limits, all the facts and circumstances are to be taken into account in determining whether the organization qualifies for exempt status. In determining whether social clubs meet the 35-15 percent limitations, "gross receipts" are defined as those receipts from the traditional, normal, and usual activities of the club. When a club receives income from nontraditional or unusual sources, such income is not to be included in either the numerator or denominator for purposes of computing the 35 or 15 percent allowances.

Your receipts from sales to nonmembers within your first accounting period were [REDACTED] percent of your total gross receipts. These receipts from sales to nonmembers resulted in a profit to you and exceed the 15 percent limit specified within Public Law 94-568. In addition, Revenue Ruling 79-145, published in Cumulative Bulletin 1979-1, page 360, states that amounts paid to a social club by visiting members of another social club are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a reciprocal arrangement with such other social club. Furthermore, because there is not evidence within your submitted information that receipts from your sales to nonmembers were used for any purposes other than the reduction of the cost of your providing services to your members, the facts and circumstances indicate that an inurement of your net earnings to your membership is present. You, therefore, do not qualify as an organization that is exempt from tax under Code section 501(c)(7).

In accordance with this determination, you are required to file Federal corporate income tax returns on Form 1120. If you do not accept our findings, we recommend that you request a conference with a member of our

[REDACTED]

Regional office conference staff. Your request for a conference should include a written appeal giving the facts, law and any other information to support your position as explained within the enclosed Publication 982. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional office, or if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]

District Director

Enclosure: Publication 892

[REDACTED]